NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
December 2, 2003

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TREASURER ANGELIDES LAUNCHES STATEWIDE DRIVE OPPOSING GOV. SCHWARZENEGGER'S $15 BILLION-PLUS BORROWING PLAN

Treasurer, Joined by School Children, College Students, Educators and Others, Says Massive, Deficit Borrowing Means 'Mortgaging Our Children's Future'

SACRAMENTO, CA –State Treasurer Phil Angelides, saying that children are "the heart and soul of California's future," today launched a statewide effort opposing Governor Arnold Schwarzenegger's plan to ask voters next March to approve a $15 billion-plus deficit bond that "will force future generations to pay for today's debts."

Angelides, speaking at a downtown news conference at the non-profit Mustard Seed School, urged citizens to contact the Governor and their lawmakers, and let them know that "massive deficit borrowing will not move this State one step closer to balancing its books." The Legislature has until this Friday, December 5, to decide on the Governor's bond proposal, if it is to appear on the March 2004 ballot. The Treasurer kicked off his effort today in Sacramento, and is scheduled to go on the road over the next several days to Los Angeles, San Diego and the Monterey Bay area, saying he needs to take his case to the people so that they fully understand the impact of the Governor's proposal on future generations of Californians.

"Clear and simple, this massive deficit borrowing proposal will mortgage our children's future," the Treasurer said. "And our children will be saddled with this debt at the very time that the Governor also wants to close off opportunities that will help them become successful, taxpaying Californians – opportunities such as valuable outreach programs for the University of California and California State University systems."

"This is an important debate for the future of California," Angelides said. "The people have a right to hear all sides of this issue, which could affect California families for years to come."

Instead of massive borrowing, Angelides said, "Lawmakers should reject the Governor's bond plan and call on him to bring them a comprehensive plan to truly balance the budget. Everything must be on the table – spending cuts *and* fair revenues. So long as the cloud of debt hovers over our heads, we cannot look forward to building California's economy for the future."

The Treasurer said that the Governor must first try to reduce – and not expand – the level of deficit borrowing already approved. In addition, any borrowing must be a last resort – and not the first choice – of a balanced budget plan, and the borrowing itself should only be for a short term so that our debts are not passed on to the next generation. And finally, a borrowing plan should only be submitted to the voters as part of a comprehensive plan that moves us toward a balanced budget.

According to the Schwarzenegger Administration's own legislative proposal, the Governor wants the Legislature to approve and submit to the voters the sale of up to $17 billion of general obligation bonds that, after costs, would result in up to $15 billion in bond proceeds to help "balance the budget."

The Governor's proposal would increase by more than $4.6 billion the State's currently projected issuance of deficit bonds authorized by the enacted budget for 2003-04, and the Governor's proposal also would extend the period of taxpayer repayment from about five years to up to 30 years. As a consequence, the Schwarzenegger plan would increase the interest rates that taxpayers would have to pay, increase the overall principal and interest payments taxpayers would have to pay; and, would pass on the responsibility of today's debts to tomorrow's taxpayers.

The Treasurer's Office has estimated that the Governor's proposed $15 billion-plus bond, if paid off over 15 years, would cost California's taxpayers $23.2 billion – or cost each California household on average $2,017. If paid off over 30 years, the bond would cost taxpayers $34.98 billion, or on average $3,042 for each household.

The total cost of the Governor's proposal, if paid off over 15 years, would be $11.8 billion more than the cost of the deficit bonds included as part of the enacted 2003-04 budget, and the Governor's proposal, if paid off over 30 years, would cost taxpayers $23.5 billion more.

The Treasurer has a long track record of opposing deficit bonds. Since last May, Angelides has frequently and consistently spoken out against such deficit borrowing, whether Democrats or Republicans promoted it, saying he does "not believe that deficit financing… is feasible or prudent." Indeed, just last month, in the Treasurer's 2003 Debt Affordability Report, Angelides said that the 2003-04 budget already includes deficit borrowing that is beyond what is fiscally prudent for the State.

More recently, Angelides last week outlined his objections to the Governor's deficit financing bond proposal when he testified before the Assembly and Senate budget committees, calling on lawmakers to reject the massive deficit borrowing proposal.

Angelides said today that the Governor's proposal "represents a dramatic departure from the traditional use of general obligation bonds, which have typically been used for schools, transportation and other critical projects that build our future. These projects have been financed over a 30-year time frame because they provide benefits today and for the future. However, when a deficit bond is paid off, our children are left with nothing of value."

"The time has come," the Treasurer said, "to suture up our fiscal wounds, move forward, and make the tough choices to truly balance our budget so we can turn our attention to investing in our future – educating our children, rebuilding our infrastructure and strengthening our economy."

STATE OF CALIFORNIA *Philip Angelides, Treasurer*

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P. O. BOX 942809
SACRAMENTO, CA 94209-0001

DATE: December 2, 2003

TO: Members of the Media

FROM: State Treasurer Phil Angelides

RE: Governor Schwarzenegger's Deficit Borrowing Plan

Last month, I released to the news media this Office's "2003 Debt Affordability Report," along with a copy of the cover letter that I sent to Governor Schwarzenegger and legislative leaders. In the report, I indicated that the deficit borrowing already authorized in the Fiscal Year 2003-04 budget was beyond the level of fiscal prudence (consistent with the viewpoint that I had expressed throughout the year and during the deliberations on the current year budget). At the time, I also expressed concern over reports that Governor Schwarzenegger – rather than moving us toward a balanced budget – would seek voter approval of even more massive deficit borrowing, borrowing that will have a negative impact on our children and grandchildren, our State's debt capacity, our credit standing, and our future ability to fund critical services and vital infrastructure investments such as schools, parks and water projects.

On November 18, Governor Schwarzenegger formally outlined his borrowing plan in specific terms, proposing to put before the voters on the March 2004 ballot a $15 billion-plus deficit-financing bond, with payments stretching out as far as 30 years. The Governor's proposal would represent a $4.6 billion increase in the State's projected issuance of deficit bonds, as compared with the already unprecedented – and imprudent – level included in the enacted FY 2003-04 budget. On November 25, I spoke before both the Assembly and Senate budget committees about the Governor's proposal, during which I expressed my grave concerns about what this plan would mean for California taxpayers.

I believe that we, as Californians, have an extraordinary opportunity at this moment – with a new administration in office having called for a special legislative session – to do the right thing and move toward a structurally balanced budget. I am deeply concerned, though, that the Governor's plan takes us in the wrong direction. Indeed, the Governor's plan for massive deficit borrowing and a spending cap does absolutely nothing to solve the budget problems we face this year, or in the next few years. It proposes to increase our deficit borrowing – passing our debts onto our children and grandchildren – but fails to move us an inch closer to a balanced budget.

In short, I told the budget committee members they should reject the Governor's proposal for the following reasons:

- Over the last five years, our bonded indebtedness has increased as a result of prudent, voter-approved investments in needed capital projects, such as schools, parks, and water and transportation systems. These kinds of projects represent the proper use of our bonding capacity. The Governor's proposal would increase our outstanding general obligation bond debt by 48 percent – from the current 2003-04 Budget Year level of $32.35 billion to $47.92 billion (See attached Chart 1). And, unlike investments in schools and parks, once we have paid the bill for deficit borrowing, we will not have gained anything of value for our communities and our State.

Additionally, by the end of this budget year, we will still have $18.05 billion in general obligation bonds authorized by the voters but not yet issued for infrastructure projects. This amount does not include the school bond measure on the March 2004 ballot or the high-speed rail bond measure on the November 2004 ballot.

- The $15 billion-plus in borrowing the Governor has proposed is not "magic money." It must be repaid in future years – shrinking the amount of money available for needed services in future years, and/or requiring tax increases of a greater magnitude to restore or maintain vital state programs. While I believe the $10.7 billion in deficit borrowing authorized by the Legislature is already too high and that every effort should be made to reduce the amount of needed borrowing, it is important to understand that the currently authorized bonds – if they clear pending legal challenges – would be paid off over five years and, as a result, would cost taxpayers significantly less than the Governor's bond proposal.

  My Office has estimated that the Governor's proposed deficit bonds would cost each California household $2,017 in debt service (principal and interest payments) over 15 years, or $3,042 in debt service over a 30-year term (See Chart 2). In contrast, the already authorized Fiscal Recovery Bonds would cost $995 per household, and would not burden the State's budget – and our children and grandchildren – with 15-to-30 years of payments. A five-year bond would cost $11.8 billion less in principal and interest than a 15-year bond, and $23.58 billion less than a 30-year bond.

- California has always maintained a prudent ratio of debt service to general fund revenues. However, the borrowing that the Governor has proposed would drive our debt levels – for an extended period of time – far above the 6 percent line that is considered prudent by both the non-partisan Legislative Analyst's Office and financial analysts (See Chart 3). Exceeding this threshold for debt financing would limit our capacity to borrow for the real investments – universities, schools, transportation – critical to a strong business climate and a growing economy over the decades to come. (Indeed, last April, the Senate Republican Caucus said the prudent level of debt service was 5 percent of general fund revenues).

- In the past, we have employed general obligation bonding capacity for critical investments that create new jobs and build infrastructure of lasting value for California's economy over the long term. But under the Governor's plan, we would be going to the financial markets for the first time in this State's history largely to borrow for deficit purposes on a long-term basis. (See Chart 4). There are good, prudent reasons to borrow – whether it is a family buying a home or stretching to send a child to college, or a state building universities, schools and transportation projects for the future. And there is imprudent borrowing, too – a family running up a credit card bill to live beyond its means or a state borrowing to roll over deficits.

Unfortunately, the State of California is now doing too much of the latter at the expense of the former.

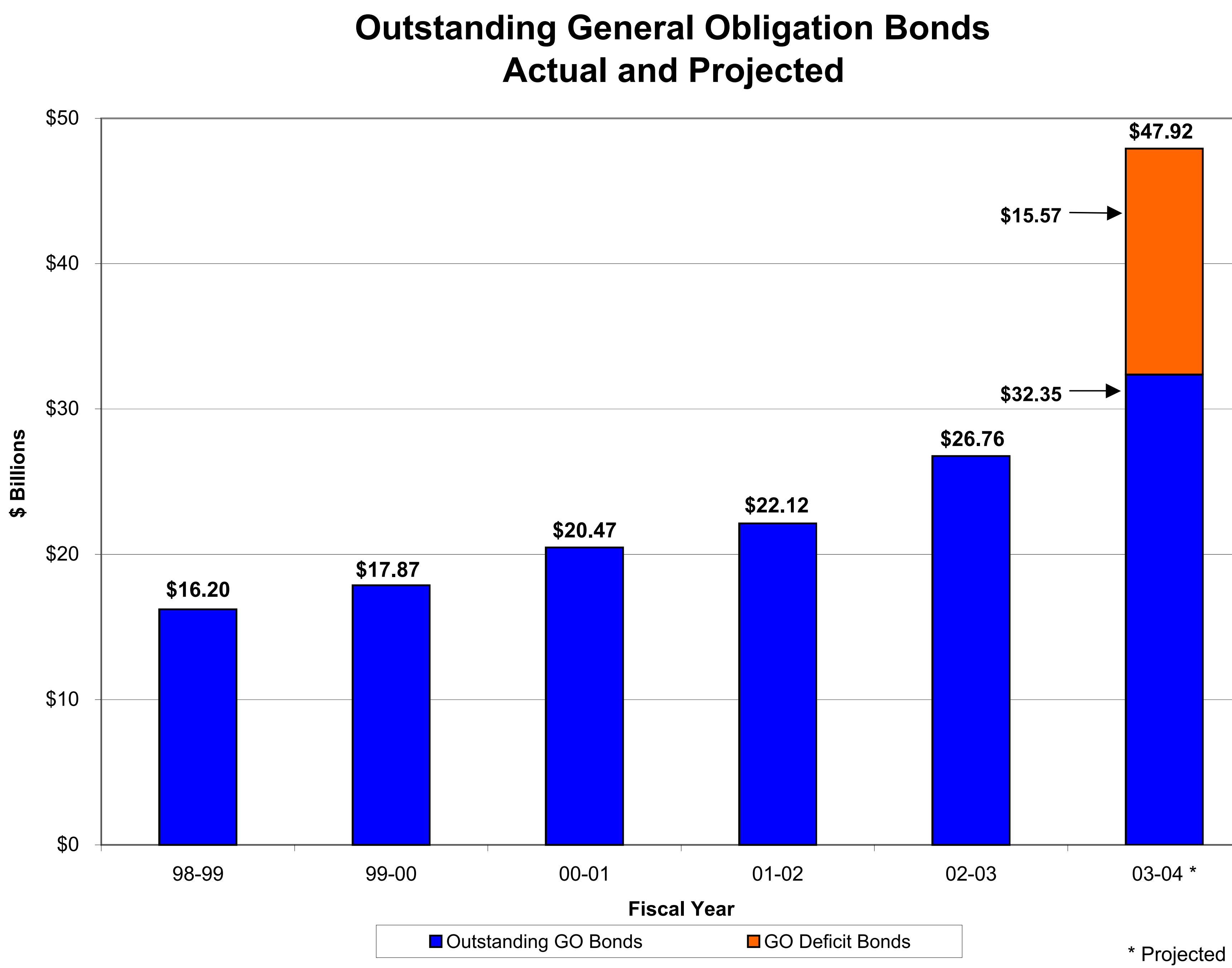
- Under the Governor's proposal, we would be attempting to sell $24.78 billion in general obligation bond debt in FY 03-04, essentially taunting the limits of the marketplace. The most general obligation debt that the State has ever sold in any one year was $6.6 billion last year. (See Chart 5). We do not have an unlimited capacity to borrow. I am deeply concerned about our ability to cost-effectively market this level of general obligation debt. Even the Governor's own financial analysts have assumed that his bond proposal will result in an interest rate 1.5 percent higher than the interest rate the State paid on its most recent general obligation bond sale, translating into additional interest costs of $2.1 billion over 15 years and $4.0 billion over 30 years.

In asking the Assembly and Senate budget committee members to reject the Governor's proposals in their current form, I made it clear that, if any deficit borrowing plan is approved, it must be part of a comprehensive plan that moves us toward a structurally balanced budget. The voters deserve to see how the Governor plans to solve our financial problems, rather than just postpone our day of reckoning. People have a right to expect a balanced budget plan that stops – not expands – deficit borrowing, and is consistent with the Governor's promise to protect key investments in education, health care for children and public safety. Consider that even if these bonds are sold, California will still be left with a gap between revenues and expenditures that the Legislative Analyst's Office has estimated at $14 billion annually.

This is the very time when we must begin a real debate about how to address our structural deficit. Everything should be on the table—revenue increases *and* spending cuts—to truly balance our budget. Each day that we do not address the structural imbalance of our budget is another day that we are not facing our future. The time has come now to suture up our fiscal wounds, move forward, and make the tough choices to put this fiscal crisis behind us so we can turn our attention to investing in our future – educating our children, rebuilding our infrastructure and strengthening our economy.

Attachments

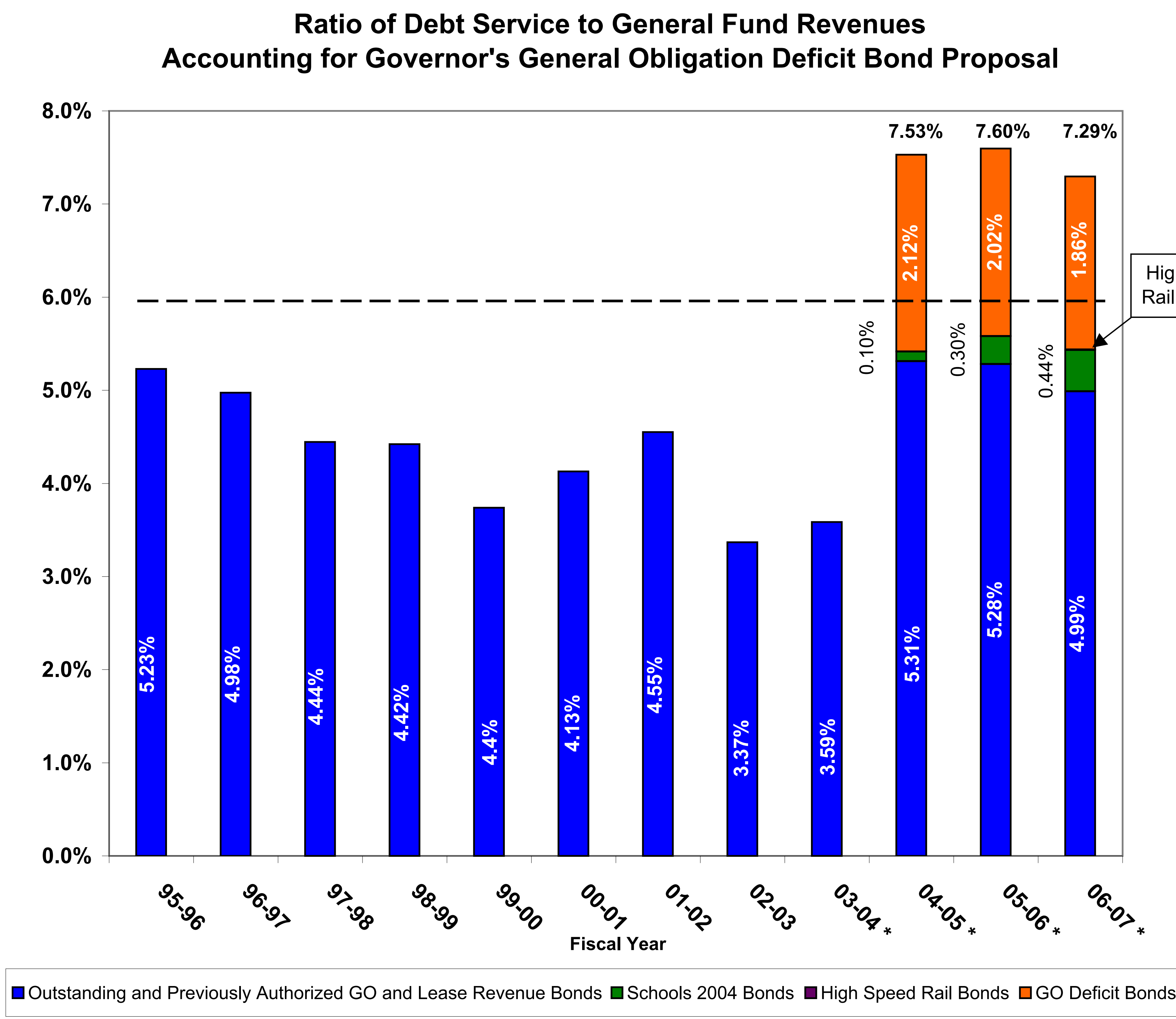
Chart 1


Outstanding General Obligation Bonds
Actual and Projected
$50
$40
$30
$20
$10
$0
$ Billions
$16.20
$17.87
$20.47
$22.12
$26.76
$47.92
$15.57
$32.35
98-99
99-00
00-01
01-02
02-03
03-04 *
Fiscal Year
Outstanding GO Bonds
GO Deficit Bonds
* Projected

Financial Impact of Governor's Proposed General Obligation Deficit Bonds

Par Amount and Term	Annual Debt Service Payment	Total Debt Service Cost to Maturity	Total Debt Service Cost per California Household
$15.57 billion, 15-year maturity	$1.55 billion	$23.20 billion ($7.63 billion interest)	$2,017
$15.57 billion, 30-year maturity	$1.17 billion	$34.98 billion ($19.42 billion interest)	$3,042

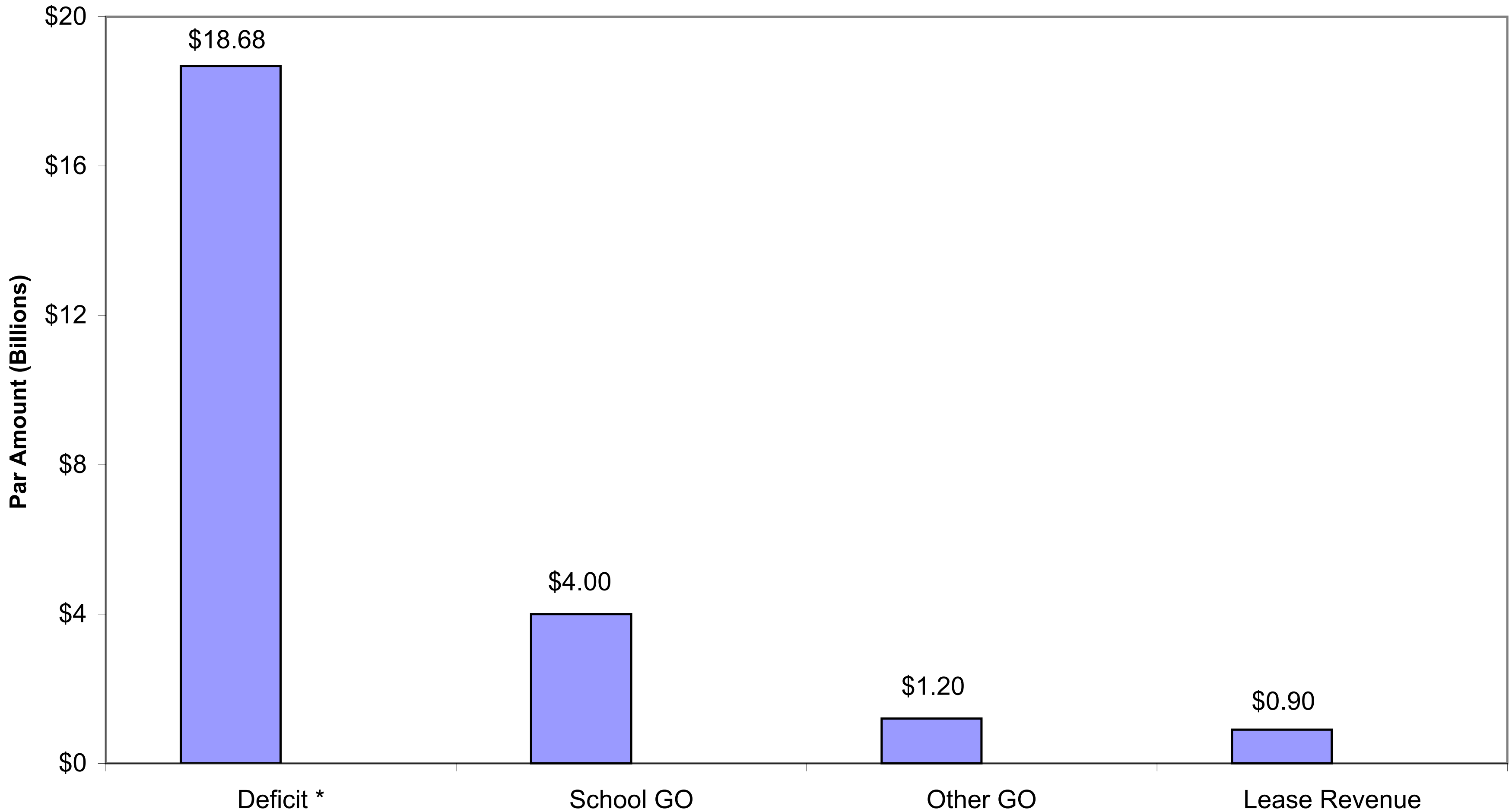
Chart 3



* Projected

Chart 4

Planned Bond Issuance Under Governor's Proposal
Fiscal Year 2003-04



* Includes tobacco bonds, pension obligation bonds, and general obligation deficit bonds.

Chart 5

Recent and Projected Bond Issuance Levels Under Governor's Proposal